CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 3, 2004

S. 1153
Veterans Prescription Drugs Assistance Act

As ordered reported by the Senate Committee on Veterans' Affairs
on July 20, 2004

SUMMARY

S. 1153 would require the Department of Veterans Affairs (VA) to provide prescription drugs to veterans receiving disability compensation and certain other veterans even if those drugs are not prescribed by a doctor employed by VA. Additionally, the bill would require VA to operate a prescription drug program for veterans who are eligible for Medicare. This program would charge enrollment fees and copayments and VA would be required to run the program such that those fees and copayments would cover the cost of providing the prescription drugs to those veterans.

CBO estimates that implementing S. 1153 would cost $55 million in 2005 and $1.7 billion over the 2005-2009 period, assuming appropriation of the necessary amounts. Enacting the bill would not affect direct spending or receipts.

S. 1153 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would have no direct effect on the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1153 is shown in the following table. The costs of this legislation fall within budget function 700 (veterans benefits and services).

	By Fiscal Year, in Millions of Dollars					
	2004	2005	2006	2007	2008	2009
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law for Veterans' Medical Care						
Estimated Authorization Level [a]	27,957	28,888	29,706	30,608	31,117	32,104
Estimated Outlays	27,141	28,334	29,293	30,210	30,846	31,756
Filling Prescriptions from Non-VA Doctors						
Estimated Authorization Level	0	64	274	443	476	511
Estimated Outlays	0	57	252	424	469	505
Medical Care Collections Fund						
Estimated Net Authorization Level	0	0	0	0	0	0
Estimated Net Outlays [b]	0	-2	-6	-6	-2	-1
Total Changes						
Estimated Authorization Level	0	64	274	443	476	511
Estimated Outlays	0	55	246	418	467	504
Spending Under S. 1153						
Estimated Authorization Level	27,957	28,952	29,980	31,051	31,593	32,615
Estimated Outlays	27,141	28,391	29,545	30,634	31,315	32,261

a. The 2004 level is the amount appropriated for that year. No full-year appropriation has yet been provided for fiscal year 2005. The current-law amounts for the 2005-2009 period assume appropriations remain at the 2004 level with adjustments for anticipated inflation.

b. These are net amounts reflecting both collections and the spending of those collections.

BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes that S. 1153 will be enacted before the end of calendar year 2004 and that the necessary amounts for implementing the bill will be appropriated each year.

Filling Prescriptions from Non-VA Doctors

S. 1153 would require VA to provide prescription drugs to veterans who are receiving disability compensation and veterans who are receiving an increased pension because they are housebound or need regular aid and attendance even if the veteran has a prescription from a doctor not employed by VA. Under current law, VA only provides prescription drugs to

veterans who have received a prescription from a doctor employed by VA. If veterans bring in prescriptions from a doctor in private practice, the department requires the veterans to receive an examination from VA doctors who write a new prescription before it will fill the prescription.

Using information from VA, CBO estimates that about 2.5 million veterans would be affected by this new requirement, though most of them (about 2.1 million) are enrolled to receive health care from VA. Because most of these enrolled veterans are likely to receive the majority of their health care from VA, CBO expects this proposal would not affect how VA provides prescription drugs to this population. However, those veterans who do not currently receive health care services from VA could now fill their prescriptions at a VA facility without receiving any other health care from the department. Under current law, veterans who have a disability rating of 50 percent or higher or who qualify because of low income receive all of their prescription drugs at no cost. Veterans who receive a prescription for a service-connected condition also receive that prescription at no cost, but must make a copayment, currently $7, if they receive a prescription for a condition that is not service-related.

Because the bill would authorize a generous prescription drug benefit, CBO assumes that, under S. 1153, about 90 percent of the veterans not currently enrolled with VA to receive health care would now choose VA to fill their prescriptions. Based on information from VA, CBO estimates that the average per capita cost of providing prescription drugs to these veterans would be about $920 in 2005. Assuming it would take about three years before veterans take full advantage of the program, CBO estimates that implementing S. 1153 would cost about $60 million in 2005 before growing to more than $400 million by 2007. We estimate costs of $1.7 billion over the 2005-2009 period, assuming appropriation of the necessary amounts.

Medical Care Collections Fund

As described above, those veterans who have a disability rating less than 50 percent and who do not qualify by reason of low income, have a copayment of $7 when they fill a prescription at VA for a condition that is not service-connected. These copayments are deposited in the Medical Care Collections Fund (MCCF). Subject to annual appropriation, VA can spend the money in the MCCF to provide medical care for veterans. As specified in law, any receipts to that fund are treated as offsets to discretionary spending to the extent that they are made available for expenditure in appropriation acts. Assuming that appropriations of the new collections are provided, estimated collections and new spending authority would offset each

other exactly. Outlays would lag behind collections somewhat, so implementing this provision would result in small net discretionary savings over the near term.

Based on information from VA, CBO estimates that about 280,000 veterans would be required to make copayments for prescriptions from non-VA physicians that VA would be required to fill under S. 1153. Assuming that 75 percent of prescriptions filled for these veterans are for conditions that are not service-connected and that it takes three years before veterans take full advantage of this new benefit, CBO estimates that implementing this provision would increase collections by $6 million in 2005 and $125 million over the 2005-2009 period. Thus, CBO estimates that net outlays for the MCCF would decline by $2 million in 2005 and $17 million over the 2005-2009 period, assuming appropriation actions that allow the spending of all the additional collections.

Prescription Drug Program for Medicare-Eligible Veterans

S. 1153 also would require VA to operate a prescription drug program for those veterans who are eligible for Medicare. Under the program, veterans could enroll to receive prescription drugs from VA, but if they enrolled those veterans could not receive any other type of health care from the department. We do not expect that many veterans who are already enrolled to receive health care from VA would enroll in the new program. VA would be required to charge enrollment fees and copayments such that the program would cover all of its costs including administrative, dispensing, and pharmaceutical costs. Thus, CBO estimates that implementing this program would have no net cost.

One reason veterans would enroll despite the enrollment fees and copayments is that, under current law and practice, VA is able to receive significant discounts for the pharmaceuticals it purchases and would be able to pass those on to enrolled veterans. However, CBO expects that as the number of veterans enrolled in this program increases that VA's cost of pharmaceuticals also would increase. CBO cannot estimate the extent of that increase because it would depends on both the number of veterans enrolled in the new program and the manner in which pharmaceutical companies change their pricing systems. (The private companies could choose to raise prices across the board, to raise prices only for VA, or to raise prices for non-VA purchases.) If prices were raised for VA, the increased drug prices would affect both the new program, which must cover its costs, and VA's regular health care system, which is paid for with annual appropriations.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 1153 contains no intergovernmental or private-sector mandates as defined in UMRA and would have no direct effect on the budgets of state, local, or tribal governments.

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